focus On®

College Funding

Investing in Your Children's Future

PREVIEW

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Estimate the Cost

Preparing Now for College Costs

Whether your child plans to attend a public college or a private college — or go beyond four years to earn a master's degree — preparing now for the cost of your child's education is a smart financial move.

College is expensive: The average total cost for four years at an in-state public college is currently approaching $90,000!

Regardless of where you are in the college savings process, there are effective strategies that can help you succeed in funding a college education for your children or grandchildren. Following these three steps may provide the foundation to help you accumulate funds for higher-education expenses:

1. **Estimate the Cost**
2. **Establish a College Fund**
3. **Evaluate Other Funding Sources**

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Source: *Trends in College Pricing 2019,* College Board

The Importance of Acting Now

In a national study of parents with children under the age of 18 about how they are preparing financially for college, nearly two-thirds said they are saving or creating a plan for how to meet college costs — or both.

Interestingly, parents of young children (age 6 and under) are as likely to be saving and planning for college as parents of older children. And more than eight in 10 parents said they are willing to stretch themselves financially to obtain the best opportunity for their child.

Parents who are preparing for future college costs are much more likely to feel confident that they will be able to meet the costs compared with parents who are not saving or preparing.

Source: *How America Saves for College 2018,* Sallie Mae

An Investment in the Future

Nearly 9 in 10 parents agree that college is an investment in their child's future and expect their child will attend some form of higher education someday.

Source: *How America Saves for College 2018,* Sallie Mae

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Current Cost of a College Education

For the 2019–2020 academic year, the average cost at a four-year public college is $21,950. This is the cost for state residents; out-of-state costs are significantly higher. The average *total* cost for four years at an in-state public college is $87,800.

Private schools are even more expensive. The average annual cost at a four-year private college in 2019–2020 is $49,870, bringing the total four-year cost to almost $200,000. Many private colleges cost considerably more.

Public college	$ 21,950
	x 4 years
	$ 87,800
Private college	$ 49,870
	x 4 years
	$199,480

College Costs

Over the past 10 years (2009–2010 to 2019–2020), college tuition, fees, room, and board have increased 17%, on average.

Source: *Trends in College Pricing 2019*, College Board

These figures include tuition, fees, room, and board but not indirect expenses such as books, supplies, personal expenses, and transportation. And they will probably be even higher in the future because they don't reflect college inflation.

Source: *Trends in College Pricing 2019*, College Board

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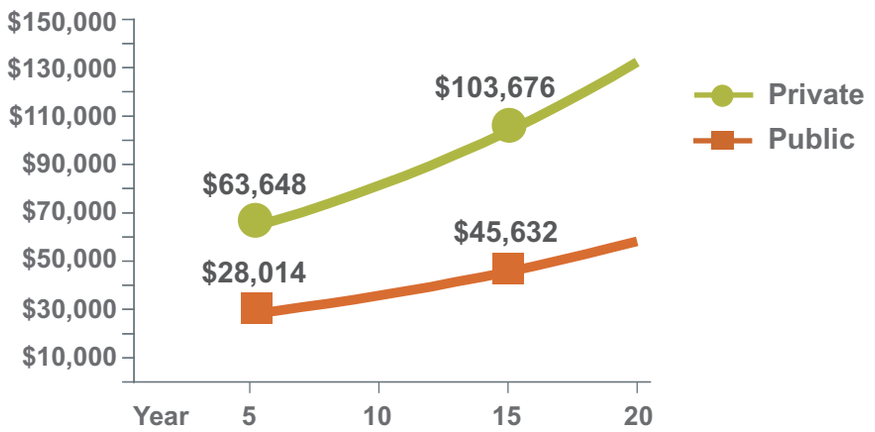
Future Annual Cost of College

You might not realize the impact that college inflation can have on overall costs. Over the past 10 years, the rate of college inflation has generally been *double* the rate of general inflation, as measured by the Consumer Price Index.

If college inflation grows by a rate of 5 percent each year, the average annual cost of a public college could reach $28,014 in five years, and the average annual cost of a private college could reach $63,648. Looking 15 years out and using the same assumptions, the average annual cost for a public college could be $45,632; for a private college, it could be $103,676.



Source: *Trends in College Pricing 2019*, College Board

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Estimate the Cost

Calculating the Cost

You can use this worksheet to estimate the future cost of sending your children to college for four years and the annual savings needed to reach your goal.

College Cost Worksheet

Name of the Child	Age	Current Annual College Cost	x	Estimated Future Cost Factor	=	Estimated Future Cost
Leah (example)	8	$ 22,000	X	7.021	=	$ 154,462
		$	X		=	$
		$	X		=	$

Estimated inflation rate: 5%

Age of the Child	Estimated Future Cost Factor
1	9.879
2	9.408
3	8.960
4	8.534
5	8.127
6	7.740
7	7.372
8	7.021
9	6.686
10	6.368
11	6.065
12	5.776
13	5.501
14	5.239
15	4.990
16	4.752
17	4.526
18	4.310

Age of the Child	Savings Factor
1	0.039
2	0.042
3	0.046
4	0.051
5	0.056
6	0.063
7	0.070
8	0.080
9	0.091
10	0.105
11	0.123
12	0.147
13	0.181
14	0.232
15	0.317
16	0.488
17	0.952
18	1.000

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Estimated Future College Cost	X	Savings Factor	=	Annual Savings Required
$ 154,462 (Leah)	X	0.080	=	$ 12,357
	X		=	$
	X		=	$

Estimated investment return: 5%

This hypothetical example is used for illustrative purposes only and does not represent any specific investment. Taxes and investment expenses are not considered.

Four Years May Not Be Enough

Many students take longer than four years to graduate from college.

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Estimate the Cost

What Is Your Savings Goal?

Not all parents expect to pay 100 percent of a child's college education.

You might think of your college savings as a down payment on the total cost, similar to a down payment on a home. A good benchmark is to aim to save at least 50 percent of your child's projected college costs. Then, when the time for college arrives, you can supplement your savings with other funding sources.

Contribution Goal

Personal Savings	Other Sources
☐ 25%	75%: _____
☐ 50%	50%: _____
☐ 75%	25%: _____
☐ 100%	
☐ Other ____%	____%: _____

Use these spaces to record how much you expect to contribute toward future college savings.

Costs Are a Consideration

About 80% of families factor in the price of a college when narrowing their list of schools to attend.

Source: *How America Pays for College 2019*, Sallie Mae

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Factor in Your Timeline

As you estimate future costs, you'll need to consider your timeline.

How many years remain before you will need money for your oldest child's first year of college? If you have more than one child, will you have two or more children in college at the same time?

Determine your timeline and cumulative costs so you can establish a college funding goal for each child.

How Will You Pay for College?

In addition to your own college savings, some of your child's college costs may be covered by:

- **Financial aid**
- **Your income during the college years, plus any income your child might earn from a part-time job**
- **Your assets or borrowing during the college years, such as tapping your home equity**
- **Creative cost-cutting measures, such as having your child attend a community college for two years before transferring to a four-year college**
- **Generous gifts from grandparents or other relatives — *if you're lucky***

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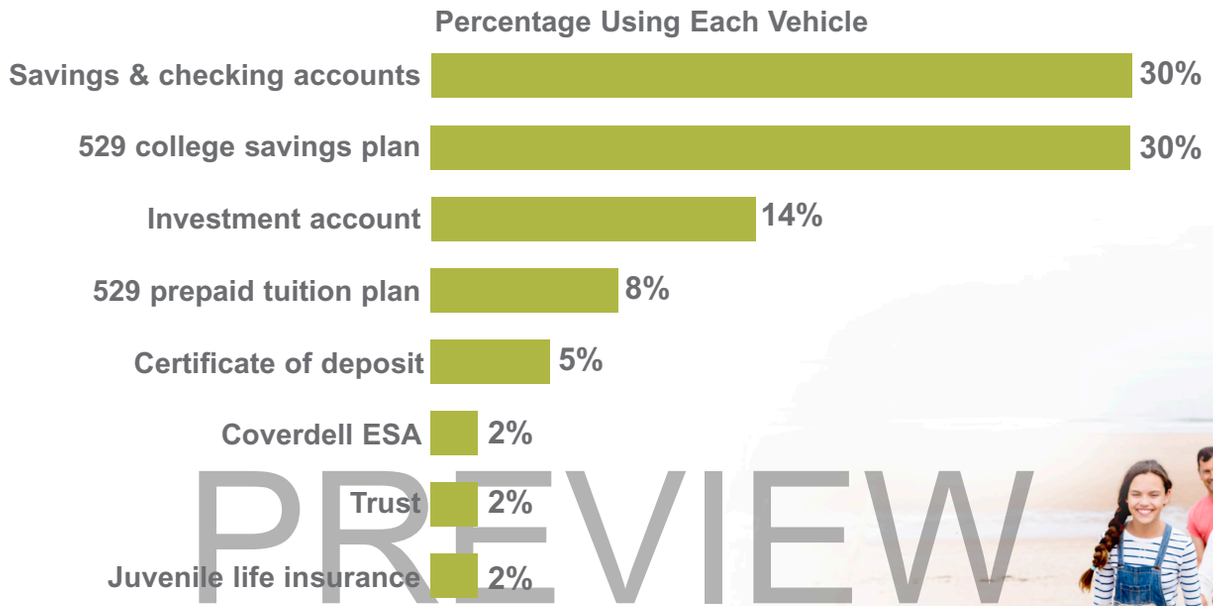
How the Typical Family Saves for College

These are the ways in which the typical American family saves for college.

As you can see, general savings and checking accounts and 529 college savings plans are the most common, followed by investment accounts, 529 prepaid tuition plans, and certificates of deposit (CDs).



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Source: *How America Saves for College 2018,* Sallie Mae

College Savings Options

- **Tax-advantaged accounts**
  - **529 plans**
  - **Coverdell Education Savings Accounts (ESAs)**
  - **Roth IRAs**
- **Taxable accounts**

Not all college savings options are created equal. Taxes can have a significant impact on your savings accumulation over time. That's why it's smart to consider tax-advantaged options when saving for college. Why give money to Uncle Sam when you need every penny for college?

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